Consultation response

FCA High Cost Credit Review: **Consultations on High-cost Credit and Overdrafts (CP18/12 and CP18/13)**

Response from the Money Advice Service

August 2018

Joseph Surtees & David Marjoribanks, Policy Managers
joseph.surtees@moneyadviceservice.org.uk
david.marjoribanks@moneyasdviceservice.org.uk
Tel: 0207 943 0018

1. About us

1.1. The Money Advice Service (MAS) is a UK-wide, independent service set up by Government to improve people's ability to manage their financial affairs. Our free and impartial money guidance is available online, and by phone or webchat.

1.2. We change lives by helping people make the most of their money. We use evidence to understand who, across the UK, most needs help and what works, and we use these insights to improve the ability of people to manage their money, either through partners, or directly.

1.3. We are responding to this consultation in respect of our statutory roles to enhance people's understanding and knowledge of financial matters; improve individuals' ability to manage their own financial affairs; and to work with partners to improve the availability, quality and consistency of debt advice across the UK.

1.4. MAS has led work with financial services firms, the third sector, government and regulators to develop the Financial Capability Strategy for the UK. This 10-year strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.

1.5. The Financial Guidance and Claims Act 2018 makes provision for establishing a new Single Financial Guidance Body. It received royal assent on 10 May 2018. The new Single Financial Guidance Body (SFGB), which will bring together the Money Advice Service, Pension Wise and the Pensions Advisory Service will have statutory functions to:

- Provide free and impartial information and guidance to enhance people's understanding and knowledge of financial matters and their ability to manage their own financial affairs to the public
- Provide free and impartial debt advice in England
- Develop and co-ordinate a national strategy to improve:
    - the financial capability of members of the public
    - the ability of members of the public to manage debt, and
    - the provision of financial education to children and young people[1]

[1] Financial Guidance and Claims Act, 2018

Money Advice Service
Holborn Centre
120 Holborn
London EC1N 2TD

2. Executive summary

Rent-to-own, home-collected credit, catalogue credit and store card credit

2.1. Customers in the rent-to-own (RTO) sector face a high level of consumer detriment. Extended warranties increase cost without bring meaningful additional protections and a point of sale offer mitigates against a rational purchasing decision. Therefore, we support the FCA's proposals for a ban on extended warranty at point of sale and for provision of adequate information, as firms should not profit from information asymmetries.

2.2. Existing regulations on home collected credit may not be sufficient as customers are not always aware refinancing costs can be greater than taking out an additional loan. The rules proposed in the consultation should help in this regard and we support their introduction. MAS can provide support to firms seeking to tailor appropriate communications material.

2.3. We agree it is important customers are aware of features of a credit product that can cause longer term detriment. This includes backdated interest payments on the full value of Buy Now Pay Later (BNPL) products. However, the FCA could go further in mandating how firms communicate this information to customers.

2.4. We strongly support extending rules on credit limit increases to catalogue credit. Firms should not contribute to financial difficulty by increasing the credit limit of at risk individuals. When people are facing problem debt they should be directed to appropriate advice and guidance.

2.5. As we said in our response to the consultation on the persistent credit card debt rules, we believe the proposed definition of persistent debt risks excluding consumers in vulnerable circumstances and exacerbating financial difficulties.

Overdrafts

2.6. Consumers who experience persistent use of unarranged overdrafts similarly face a high level of detriment. Overdrafts are not well understood by consumers. We therefore support the FCA's proposals on the provision of information and tools to improve customer understanding and better use of overdrafts. We have demonstrated how consumer information and tools informed by behavioural science can deliver improved understanding and confidence in selecting credit products, and MAS can also provide support to firms.

2.7. We support the FCA's proposal for firms to automatically enrol customers into unarranged and arranged overdraft and refused payment alerts. We would like to see firms required to include in the alert content the specific daily costs, including any fixed daily or monthly fees as well as interest. We would also like to see alert content that:

2.7.1. encourages consumers to seek assistance with taking charge of their finances; and

2.7.2. signposts to support (including MAS and the Single Financial Guidance Body, once established) as well as notifying them of their overdraft use and the associated costs.

2.8. We agree it is important consumers understand their use of overdrafts and that overdrafts are a form of debt, and therefore support the FCA's proposal to exclude any arranged overdraft when presenting 'balance', 'available funds', or 'available balance' to the customer.

2.9. We support the FCA's intention to simplify pricing structures to enable customers to better understand and more easily compare products. We suggest the FCA considers also how to improve other key elements of financial capability such as consumer financial confidence, alongside pricing remedies.

2.10. We agree persistent overdraft use is problematic and that it is essential that vulnerable consumers are identified and supported. We support the explicit obligation on firms to have adequate systems to identify customers in financial difficulty, and we recommend signposting to MAS (and the Single Financial Guidance Body once established) in firms' communications to customers identified as at risk of persistent overdraft use. MAS also has tools to help firms ensure that customers in or at risk of financial difficulty get the correct guidance.

3. Consumer credit and financial capability

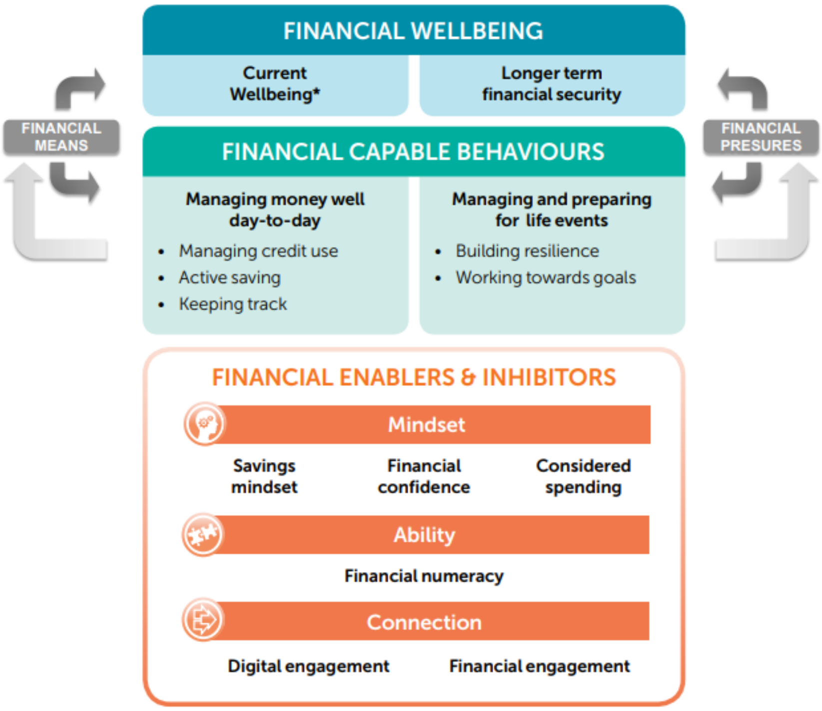
3.1. We welcomed the FCA's wide-ranging review into high cost credit, a review that has highlighted the complex array of products and charging structures that too often have critical consequences for consumers. We support proposals that could improve the high cost credit market for its customers and are pleased to respond to the FCA's consultations on overdrafts and rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high-cost credit. We have not responded to every question in both consultations but have focused our response on the areas we are best-placed to contribute and provide input.

3.2. Access to affordable credit and people's ability to make informed financial decisions is key to day-to-day money management – an important aspect of financial capability. Alongside savings, the responsible use of credit is a vital way for UK consumers to make bulky purchases and smooth income and expenditure. Our evidence shows that of the financially capable behaviours that people exhibit, it is managing credit that can have the greatest impact on their financial wellbeing.

3.3. 'Financial capability' is a person's ability to manage money well, both day to day and through significant life events, and to handle periods of financial difficulty. It is driven by personal skills, knowledge, attitudes and motivations, and made possible by an inclusive financial system and supportive social environment. Financial capability helps people achieve the best possible financial well-being.[2]

3.4. The Money Advice Service's 'financial capability framework' (see Figure 1 below) captures the main elements of financial capability – the behaviours underpinning financial capability and the factors impacting it – in a single model. 'Managing credit use' is identified in this model as a key financially capable behaviour – indeed, our UK financial capability survey found that managing credit use is the behaviour with the greatest impact on current financial wellbeing.[3] Managing credit is also second only to building resilience in terms of the money behaviours that are most highly correlated with longer-term financial security. Helping consumers to manage their credit use effectively is therefore an important area of focus for improving financial capability.[4]

Figure 1: The Financial Capability Framework

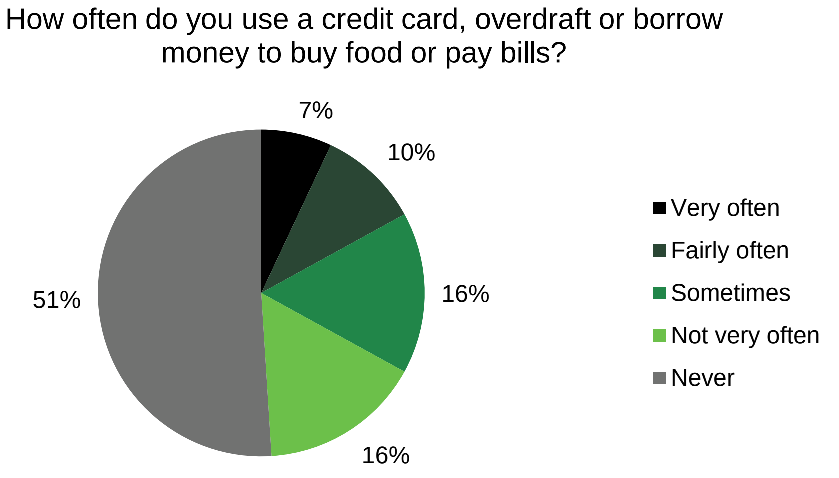


[2] MAS (2015) Financial Capability Strategy for the UK
[3] MAS (2016) Measuring financial capability – identifying the building blocks
[4] MAS (2016) Measuring financial capability – identifying the building blocks

3.5. MAS has therefore implemented a long-term impact measure to reduce the proportion of 'financially struggling' and 'financially squeezed' adults who regularly use credit for everyday spending (to buy food or pay bills because they are short of money). We are supporting the UK Financial Capability Strategy's corresponding 'rallying cry' across the sector to reduce levels of reliance on unsecured credit for everyday spending. We are also undertaking work to develop financial rules of thumb to guide young consumers' credit use – which includes overdrafts as well as credit cards and loans, etc.

3.6. Advance preliminary analysis of MAS's forthcoming UK Financial Capability Survey 2018 shows that 7% of UK consumers use credit, an overdraft or borrow money to buy food or pay bills, and a further 10% do so fairly often. Among the over-indebted population, 44% use credit to pay for food or bills at least fairly often, and 21% do so very often.

Figure 2: Credit use (Preliminary analysis of UK Fin Cap Survey 2018)



4. Response: Rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high-cost credit (CP18/12)

Q3: Do you agree with our proposals for a point of sale ban on extended warranties?

4.1. RTO is a market where many customers have little alternative supply and are therefore in danger of being over-charged. Their ability to service higher costs is also limited by the lower income profile of typical customers. One survey found RTO users are twice as likely as other credit users in financial difficulty to be in arrears on essential household bills (utility bills, council tax, rent).[5]

4.2. Extended warranties on goods increase cost (service cover provided by RTO providers can add up to almost half the cost of a typical agreement).[6] They do not necessarily bring meaningful additional protections. How much they cost is also often difficult to understand, as the three separate elements that make up the total price of an agreement can be confusing for customers[7]. All this means any decision to purchase should be made by a customer in full possession of the facts and able to make a rational decision.

4.3. But a point of sale offer of an extended warranty mitigates against such a rational decision, particularly if high pressure sales techniques are used (a poll of RTO customers found almost four in ten felt add-ons such as insurance was forced upon them).[8] Consumers can often be vulnerable at this point, particularly if their understanding of financial products is limited. As the APPG on Debt and Personal Finance found, 'the separate cost of extra warranties and insurance is often not made clear.' While National Debtline advisers report a general concern about clients' understanding of rent-to-own agreements.[9]

4.4. Therefore, we support the FCA's proposal, based on findings in the consultation document, for a ban on point of sale purchase of extended warranties. It does not appear as if change will happen without regulatory intervention. Many of the problems identified by the OFT's High Cost Credit Review 10 years ago persist.[10]

Q5: Do you have any comments on the proposal to provide adequate explanations to enable the consumer to make an informed decision?

4.5. It is important consumers have adequate information to make informed decisions. The FCA has already accepted this point by mandating high-cost short-term lenders include a risk warning, signposting potential borrowers to MAS, in financial promotions.[11] Therefore, we support the proposal on adequate explanations. All financial products should deliver value-for-money to consumer and firms should not profit from information asymmetries.

4.6. It is unclear from the consultation document that the cost of the warranty will be displayed separately from the purchase price. We recommend the FCA ensures this is a feature of

[5] StepChange Debt Charity poll of 273 RTO customers, October 2014
[6] https://www.barnardos.org.uk/a_vicious_cycle_report_online.pdf
[7] http://www.thrive-teesside.org.uk/docs/Report-Cfrc-Iprom.pdf
[8] StepChange Debt Charity poll of 273 RTO customers, October 2014
[9] http://www.appgdebt.org/wp-content/uploads/2015/02/Money-Advice-Trust-APPG-submission.pdf
[10] http://www.appgdebt.org/wp-content/uploads/2017/08/APPG-RTO-Inquiry-report-10-2-15web.pdf
[11] CONC 3.4.1R

communications. It might furthermore be useful for firms to specify where customers could go to purchase an extended warranty from another provider or an idea of comparative cost. Potentially, as recommended by Barnardo's, providers could display information on the average retail price of their products online and from high-street retailers.[12]

4.7. When advertising the warranties firms should avoid emphasising the weekly cost over and above other considerations. We know customers can anchor to this figure and therefore it can drive poorer long-term decisions.[13]

4.8. Research indicates that current communications with consumers by RTO firms can leave a lot to be desired e.g. poor-quality account statements can leave customers unable to identify the individual items subject to rental agreements.[14] If firms are unclear how best to ensure customers get the correct guidance there are many Money Advice Service tools that might help. For example, a 'how-to' operational toolkit to help creditors support consumers who fall behind on payments, *Working Collaboratively with Debt Advice Agencies,*[15] encourages creditors to examine their debt collection strategies and collaborate with the debt advice sector to better support consumers in financial difficulty.

Q9: Do you agree with our proposed new rules on explaining the costs of refinancing compared with a concurrent loan?

4.9. Although there are already regulatory rules in place protecting home collected credit customers – including on creditworthiness, affordability,[16] and unsustainable refinancing[17] - these may not be sufficient. The total costs of refinancing are often greater than taking out an additional loan and consumers are not always aware of this. We recognise additional concerns on commission structures in the market. The rules proposed in the consultation should strengthen these protections, therefore we support their introduction.

4.10. Borrowers should make re-financing decisions based on the right information. This can be difficult because people in financial difficulty often filter out non-essential communications because of the excessive cognitive load it places on them.[18] This means it is important information is provided in a way that is suitable to an individual's circumstances. Across the UK many people still have low levels of financial capability, four in ten UK adults do not

---

[12] https://www.barnardos.org.uk/a_vicious_cycle_report_online.pdf
[13] http://www.appgdebt.org/wp-content/uploads/2017/08/APPG-RTO-Inquiry-report-10-2-15web.pdf
[14] http://www.thrive-teesside.org.uk/docs/Report-Cfrc-Iprom.pdf
[15] https://masassets.blob.core.windows.net/cms/files/000/000/780/original/MAS0003_Collaborative_working_Final_W.pdf
[16] CONC 5.2 and 6.2
[17] CONC 6.7.18
[18] https://masassets.blob.core.windows.net/cms/files/000/000/810/original/MAS0032-MAS-BehaviouralChange_W.PDF

describe themselves as being confident managing their money (giving themselves a score of seven or less out of ten). Firms must recognise this and help customers make optimal decisions about the use of credit. Communication must be simple, clear and not exploit the behavioural biases that affect customers.

4.11. MAS can provide support to firms seeking to tailor communications material appropriate to the circumstances. Our Financial Capability Lab, in partnership with the Behavioural Insights Team and Ipsos MORI, tested the topic of 'helping people to take control of their spending and credit use'. We would recommend the FCA directs firms towards this research and our paper on *How to use behavioural science to increase the uptake of debt advice.*[19] We would further recommend firms ensure that those seeking to refinance who might be in financial difficulty are signposted to the MAS debt advice locator tool. The tool lists only providers that are free to the client and hold MAS recognised Quality standards. It is updated by MAS on a quarterly basis thus ensuring only up to date providers are listed. The MAS website also contains many tools to aid with budgeting, including MAS' online Budget Planner.

Q11: Do you agree with our proposals for new rules clarifying that firms must explain clearly upfront how interest will be charged if the customer does not repay within the BNPL offer period?

4.12. We agree that it is important customers are aware of any features of a credit product that may cause longer term detriment, such as backdated interest payments on the full value of BNPL products. Therefore, we agree with the FCA extending its rules to ensure consumers are better aware of this practice. As the regulator's research has shown, customers tend not to consider BNPL as a credit product, meaning additional protections are vital. We further support the regulator's intention to take taking a broader look across these products.

4.13. The FCA could go further in mandating how firms communicate this information to customers. Given the likelihood a significant number of customers will skirt past this information it might be important for firms to present it in a way that cannot be ignored. Again, we'd direct firms to our Financial Capability Lab work and materials on using behavioural insight in communications material.

Q18: Do you have any comments on our proposals to extend the existing rules for credit cards and store cards to not increase credit limits or interest rates for customers at risk of financial difficulties to catalogue credit?

---

[19] https://masassets.blob.core.windows.net/cms/files/000/000/810/original/MAS0032-MAS-BehaviouralChange_W.PDF

4.14. We strongly support extending rules on credit limit increases to catalogue credit. We estimate that 8.3 million people are over-indebted, i.e. they find keeping up with bills and/or credit commitments a heavy burden or have fallen behind on, or missed, any payments for bills and/or credit commitments in any three or more months in the last six months.[20] Firms should not grow this number by increasing the credit limit of individuals at risk of financial difficulties. If they are already at their credit limit this indicates a pre-existing level of financial difficulty. Further credit is likely to exacerbate any problems. In fact, worse, being offered additional credit can cause individuals to believe there is no financial problem at all. If the individual uses this line of credit they will often be unable to maintain payments on it, particularly if they experience an income shock.

4.15. When people are facing problem debt they should be directed to appropriate advice and guidance. In order to do so, it is vital firms take responsibility for identifying financial difficulty and the FCA should ensure they have systems in place to do this. We cannot assume individuals will recognise their own vulnerability and seek help. Our research shows people don't necessarily look for or find the help they need. People sought help and found what they were looking for following just a quarter of all recent life events.[21] For those who sought help, two in five did not find what they were looking for.[22]

Q24: Do you agree with our proposals to extend the existing rules for credit cards on persistent debt to catalogue credit and store cards?

4.16. As we said in our response to the consultation on the persistent credit card debt rules, we believe the proposed definition of persistent debt risks excluding consumers in vulnerable circumstances and exacerbating financial difficulties.

4.17. First, we are concerned 18 months is too long a period for firms to fail to engage with consumers repaying more in interest and charges than principal on relatively low-value borrowing. For those in trouble there are likely to be numerous behavioural flags over this period firms could use as a prompt to step in. If firms focus only on the persistent debt definition, instead of more sensitive measures, they will miss vulnerable individuals.

---

[20] https://masassets.blob.core.windows.net/cms/files/000/001/064/original/Mapping_the_unmet_demand_for_debt_advice_in_the_UK.pdf

[21] https://masassets.blob.core.windows.net/cms/files/000/000/847/original/Right_Place__Right_Time_%281%29_%28November_2017%29.pdf

[22] https://masassets.blob.core.windows.net/cms/files/000/000/847/original/Right_Place__Right_Time_%281%29_%28November_2017%29.pdf

4.18. Second, the intervention specified at 18 months may not help those in severe difficulty. We know many those contacted will not seek the advice they need. As we have pointed out above, because financial difficulty restricts an individual's cognitive bandwidth they will often need significant amounts of guided support. One option would be for firms at this point to assess customers capacity to make repayments and assist them in taking control of their finances. We recommend that customers at this point be required to complete a budget using the Standard Financial Statement to establish an affordable repayment plan and firms should be required to provide relief on interest and charges and/or an alternative lower-cost product.

4.19. Third, placing minimal requirements on firms to engage with customers and offer effective solutions between 18 and 36 months will lead to increasing indebtedness for many. This will not just be credit debt. As our response to CP 17/10 demonstrated, for those in financial difficulty and seeking debt advice, there may be a trade-off between servicing credit debt and paying essential bills. Analysis of our 2015 FinCap survey data shows those who are not behind on credit card bills are significantly more likely to be behind on essential bills (including council tax, rent, water, electricity and gas bills). With the catalogue and store card definition specifically, we are unclear why the FCA has chosen to exclude consumers whose balance has fallen below £200 at any point during the 18 months.

5. Response: Overdrafts (CP18/13)

Q3: Do you agree with our draft rules to require firms to offer an online overdraft eligibility tool which indicates the likelihood of a consumer being eligible for an overdraft facility?

Q4: Should we require firms to design tools in a way that could be provided through APIs to third-party providers so that the same comparison can be run for a consumer across different banks?

Q5: Do you agree with our draft rules to require firms to provide clear, easy-to-read, prominent information about overdrafts to their customers before they apply for an overdraft?

Q6: Do you agree with our draft rules that online calculators should be made available to show consumers how much they will be charged for their overdraft and allow consumers to calculate their costs?

5.1. Many financial products – and overdrafts in particular – are quite complex, and there is a known problem with their comprehension by consumers. In our UK Financial Capability Surveys, we have found that even the simple measures of reading a bank statement, comprehending inflation and buying power, and calculating a balance after interest were challenging for a significant minority of those surveyed. And the low levels of understanding of overdrafts in particular – including consumers not considering overdrafts to be debt, as well as being confused about how they work and the charges involved – and low consumer engagement are well-established issues.[23] The Money Advice Service is therefore supportive of the FCA's proposals to improve the provision of information, eligibility and comparison tools, and cost calculators to consumers to improve customer understanding and aid more informed choices and better use of overdrafts.

5.2. MAS would also like to see better signposting from financial services to consumer information and guidance on overdrafts. At present, high-cost credit providers are required to direct their customers to MAS and our commissioned debt advice services, but this often takes the form of a simple direction to the MAS home page in advertisement small print. We would like to see financial services providers signpost consumers at the point of applying for an overdraft facility directly to MAS guidance on overdrafts (https://www.moneyadviceservice.org.uk/en/articles/overdrafts-explained).

5.3. Our research also suggests that consumer information on overdrafts can be enhanced with insights from behavioural science to deliver significant improvements in consumer understanding. MAS worked with the Behavioural Insights Team and IPSOS MORI on a Financial Capability Lab, as part of the Financial Capability Strategy, to develop new ideas based in behavioural science and rapidly test the ideas to create a pipeline of projects that can then be piloted and tested in the field. The ideas tested in the Lab included three experiments which aimed to improve customer information and understanding of credit products. These experiments showed that improving consumer information with the aid of behavioural science can deliver improved consumer understanding.

5.4. One experiment involved developing a credit card repayment interface informed by behavioural science to help card holders overcome the 'anchoring' effect that the minimum payment option can exert, leading customers to default to only the minimum monthly payment. The interface was a 'slider' tools which enable consumers to select the level of repayment they would like and how much they would like to borrow. This experiment found that all of the slider tool options tested resulted in increased customer repayment compared to the industry standard. (The FCA's experimental research similarly found that removing the

[23] Atticus (2018) Consumer research on overdrafts

minimum repayment from the manual repayment screen had a large positive effect, significantly increasing the value of repayments.)[24]

5.5. A second experiment tested consumer understanding of the total costs (fees, charges, and interest) for examples of credit card provider web pages, comparing these provider web pages with an alternative, behaviourally-informed version which made the information more simple, salient, and interactive (for example, presenting costs in pounds rather than percentages, using slider tools, presenting the most important information as '6 key facts', etc.). This experiment found that the behavioural version of the web page achieved a significant improvement in the number of questions consumers answered accurately, demonstrating improved understanding.

5.6. A third experiment compared a behaviourally-informed comparison website, which used a dynamic interface to make costs more salient (via use of slider tools), easier to understand (expressing cost in terms of pounds rather than percentages, and expressing time in terms of years and months rather than just months), and enabled consumers to personalise to their financial situation to increase the relevance of information. This resulted in a significant improvement in users' ability to choose the least costly credit card, and a significant improvement in their confidence in their choice.

5.7. These experiments conducted as part of the Fin Cap Lab demonstrate that improving customer information with behavioural science can deliver improved understanding and confidence in selecting credit products. We would like to see the FCA seek to build on this work in its development of the proposed requirements for firms with regard to provision of eligibility tools, information, and calculators. We would recommend the FCA directs firms towards this research and our paper on *How to use behavioural science to increase the uptake of debt advice*[25]. MAS can also provide support to firms seeking to tailor consumer information and tools.

Q8: Do you agree with our draft rules to require firms to automatically enrol their customers into arranged overdraft, unarranged and refused payment alerts?

Q9: Do you agree with our draft rules regarding alert channel, content, scheduling and grace periods?

5.8. MAS supported the CMA's requirement to auto-enrol customers into overdraft alert services and we support the FCA's proposals to require firms to automatically enrol customers into

---

[24] Adams, et al (2018) Helping credit card users repay their debt: a summary of experimental research, FCA Research Note
[25] https://masassets.blob.core.windows.net/cms/files/000/000/810/original/MAS0032-MAS-BehaviouralChange_W.PDF

arranged and unarranged overdraft and refused payment alerts.
Self-enrolment rates into alerts by consumers are low – as little as 3-8% by 2015[26] – and auto-enrolment has considerable potential to harness the power of inertia to increase customer awareness of their credit use and engagement with it. The research shows consumers find alerts helpful and support auto-enrolment, and the lesson from workplace pension auto-enrolment is that very few customers who are automatically enrolled choose to opt out. The FCA estimates alerts could save consumers up to £140.5m a year in reduced overdraft and refused payment charges and fees. Automatic enrolment into unpaid items reduced charges by 21-24%, while automatic enrolment into unarranged overdraft alerts reduced charges by 25%.[27] Subsequent research found alerts resulted in an average reduction of 13-18% in unarranged overdraft and unpaid item charges).[28] Given that there appear to be very few downsides to auto-enrolling into alerts,[29] we support this proposal.

5.9. Alerts also have a potential role to play in improving overall financial capability. Our research has found that financial engagement (which includes measures of making time for one's finances, not just living for today and believing that you can make a difference to your own financial situation) is the second most important dimension of 'enablers' and 'inhibitors' of financial wellbeing, after financial confidence.[30] By increasing consumers' engagement with their current account overdrafts, alerts may contribute to overall increased engagement with their finances, which is an important enabler of financial wellbeing.

5.10. We also note the research for the FCA which found that consumer alert messages that explicitly stated the level of daily costs that could be incurred, as opposed to non-specific indications of possible monthly maximum charges or costs were more impactful, particularly when the cost is higher, and when the user is in their overdraft.[31] The results from this research indicated that alerts should highlight the more immediate daily costs instead of just the monthly maximum charge, as the immediate costs are far more influential and tangible for consumers – possibly reflecting a present bias or preference for smaller-sooner rewards over later-larger rewards. In light of this finding, we would like to see the FCA require firms to include in the alert content the specific daily costs, including any fixed daily or monthly fees as well as interest (unless the FCA acts to ban fixed fees in favour of using a single interest

[26] Caflisch et al (2018) Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts, FCA Occasional Paper 36
[27] Caflisch et al (2018) Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts, FCA Occasional Paper 36
[28] Adams et al (2018) Time to act: A field experiment on overdraft alerts, FCA Occasional Paper 40
[29] Ibid
[30] MAS (2016) Measuring financial capability – identifying the building blocks
[31] Decision Technology (2018) FCA Prompts and Alerts Design: Behavioural Evidence

rate, in which case this would be redundant). The benefits of taking action to avoid the more immediate daily costs may be realised more readily than for the monthly charge, and including specific information on daily costs in the alerts rather than just monthly charges may be more impactful.

5.11. We would also like to see alert content focusing on encouraging consumers to seek assistance to take charge of their finances and signposting to support as well as notifying them of their overdraft use and the associated costs. We would welcome individuals being directed to the Money Advice Service – and, once the new body is established, the Single Financial Guidance Body. As the Statutory body tasked with improving people's ability to manage their money and for improve the quality, availability and consistency of debt advice across the UK, we are best placed to help individuals to take control, including considering if they are using the best credit option for their circumstances.

5.12. We suggest that the FCA undertakes further testing of a range of overdraft and refused payment alerts, including alerts which specifically give daily costs and which signpost consumers to the Money Advice Service for further information and support around overdrafts.

Q10: Do you agree with our draft rules to require that if a firm refers to 'balance', 'available funds', or 'available balance', this must exclude any arranged overdraft available to the customer?

5.13. Given that research shows consumers often do not consider overdrafts as debt – with recent (albeit qualitative rather than quantitative) research finding that less than one in five of the sample agreed with the statement: 'I think of my overdraft as a form of debt'[32] – we support this proposal. Requiring clarity over when consumers are in debt in the presentation of information about available funds may improve consumers' understanding of their credit use, which may contribute to improvements in financial wellbeing.

Q12: Do you have any comments, observations or evidence about the range of potential remedies we have discussed?

Q13: Are there other remedies we could consider to address the high level of fees or complexity of price structures? Please explain what the impact might be, why such remedies would be appropriate, and any evidence you have to support your views.

5.14. MAS supports the FCA's intention to simplify pricing structures to enable consumers to easily compare overdraft costs across providers and with other forms of credit. In addition to

[32] Atticus (2018) Consumer research on overdrafts

improving consumer information and simplifying pricing for overdrafts, in order to reduce the harm of problematic overdraft use, we suggest the FCA considers also the other dimensions of financial capability. Choosing which credit options to use and how to use them depends on consumer's financial confidence, for example, as well as knowledge.

5.15. Our UK Financial Capability Survey shows the importance of financial capability – skills, knowledge, attitudes, motivation and opportunity – on optimising financial behaviour such as managing money well day to day, planning ahead and avoiding financial difficulty. These findings are relevant to people's capability to shop around for products and services, including overdraft facilities.

5.16. At present, levels of financial capability in the UK are low and this results in detriment to consumers, undermines the impact of broader government policy, and inhibits competition in the financial services market, as well as hindering the achievement of wider consumer and social outcomes. If we are to realise the full potential of better information for consumers on overdrafts and the choices they offer, we need to improve financial capability.

5.17. Our research has found that financial confidence (comprising both confidence managing money day to day and the confidence to make financial decisions) is by far the most important individual dimension of the enablers and inhibitors of current financial wellbeing, and is also the most important dimension of longer-term financial security.[33]

5.18. Yet many UK adults do not describe themselves as being confident managing their money: 42% of adults (21.7m) do not feel confident managing their money, and 53% of adults (27.4m) do not feel confident making decisions about financial products and services.[34] We also know that those who lack confidence making decisions about financial products and services are less likely to have changed bank account products or providers or done anything to check if they are getting the best deal in the last 12 months.[35]

5.19. In order to achieve the important ambition of increasing consumer engagement with overdrafts and increasing competition and of enhancing consumer choice, we would suggest the FCA also considers how to improve other key elements of financial capability such as consumer confidence alongside remedies to simplify prices.

---

[33] MAS (2016) Measuring financial capability – identifying the building blocks
[34] MAS (2015) UK Financial Capability Survey

[35] MAS (2015) UK Financial Capability Survey

Q14: Do you agree that repeat overdraft use is a harm that we should address? Please explain what pattern(s) of repeat use that you would consider problematic, and provide any evidence that you may have to support your views?

5.20. We agree that repeat overdraft use is a harm the FCA should address. We know that in 2017, among all UK adults using credit who had been overdrawn in the last 12 months, 18% were constantly overdrawn and 24% were usually overdrawn by the time they got paid/received income.[36] Our preliminary analysis of data from the forthcoming MAS UK Financial Capability Survey 2018 shows that 8% of UK consumers (who have a current account) are very often overdrawn, and a total of 15% are overdrawn at least fairly often. Our data also show that 8% of consumers (who have a current account) are fairly of very often over their overdraft limit.

Figure 3: Overdraft use (Preliminary analysis of UK Fin Cap Survey 2018)

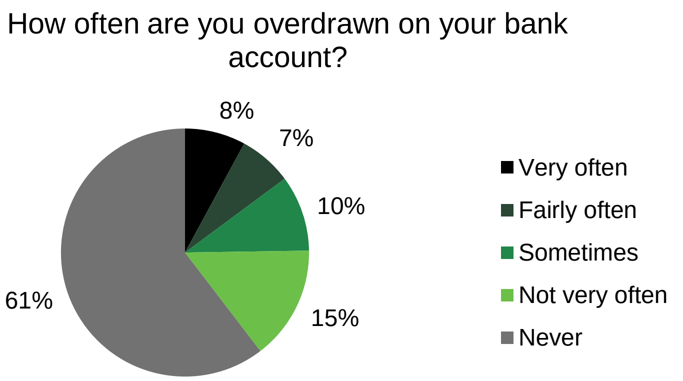
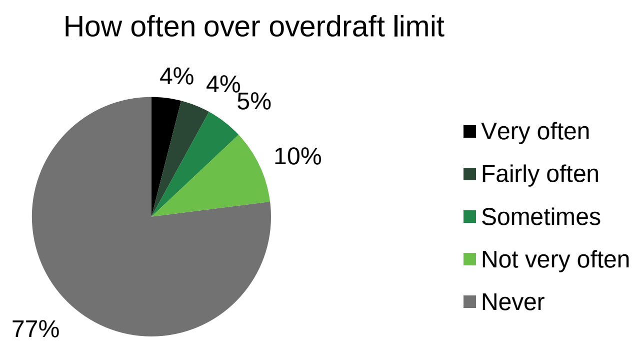


Figure 4: Exceeding overdraft limit (Preliminary analysis of UK Fin Cap Survey 2018)

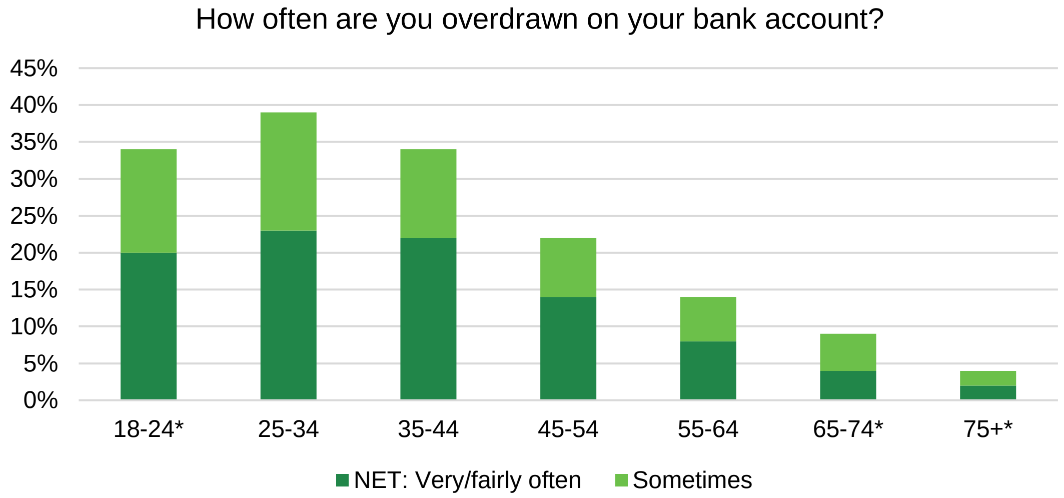


[36] FCA (2017) Financial Lives, Table 5: Consumer Credit

Money Advice Service
Holborn Centre
120 Holborn
London EC1N 2TD

Our data show a patterning by age in terms of overdraft use, with younger respondents being more likely to report being overdrawn. Respondents aged 25-34 reported the highest levels of overdraft use, and they were more than 50% more likely than those aged 45-55 and almost three times as likely as those in the 55-64 age group to use their overdraft very or fairly often. Figure 5 below shows the relative proportions of respondents in each age range who report being overdrawn very or fairly often or sometimes.

Figure 5: Overdraft use by age (Preliminary analysis of UK Fin Cap Survey 2018)



*Columns in which results were not all statistically significant

5.21. Consumers who repeatedly find themselves overdrawn can find themselves trapped in a cycle of borrowing, and can leave little money left over for essentials after repaying the overdraft and the associated interest and charges. This can then mean relying on credit in order to cover household hills and other essential expenses, pushing households further into their overdraft, and mounting up unmanageable debt.[37]

Q15: Do you have any comments, observations or evidence about the range of potential remedies we have discussed, or when we should intervene?

Q16: Are there other remedies we could consider? Please explain what the impact might be, why such remedies would be appropriate, and any evidence you have to support your views.

[37] StepChange (2017) Stuck in the red

5.22. We support the FCA's intention to remedy problematic use of overdrafts and to ensure vulnerable consumers are identified and supported. We cannot always assume individuals will recognise their own vulnerability and seek help. Our research shows people don't necessarily look for or find the help they need. People sought help and found what they were looking for following just a quarter of all recent life events. For those who sought help, two in five did not find what they were looking for.[38]

5.23. For firms to identify vulnerability and harmful patterns of overdraft use, it is important they have a detailed understanding of their customers. The FCA's rules on affordability assessments should mean they have systems in place that allow them to identify vulnerability, which means identifying individual characteristics beyond interest, charges and product type. It is key that firms have processes in place to take appropriate action where vulnerability and harmful repeat overdraft use is identified. We therefore support the explicit obligation on firms to have adequate systems and policies around their provision of overdrafts that allow them to identify customers in or at risk of financial difficulties, take appropriate action, and deal with customers in financial difficulty.

5.24. If firms are unclear how best to ensure customers get the correct guidance, there are many Money Advice Service tools that might help. For example, a 'how-to' operational toolkit to help creditors support consumers who fall behind on payments, *Working Collaboratively with Debt Advice Agencies,*[39] encourages creditors to examine their debt collection strategies and collaborate with the debt advice sector to better support consumers in financial difficulty.

5.25. We also recommend the inclusion of a signpost to the Money Advice Service (and, once the new body is established, the Single Financial Guidance Body), and specifically to the MAS debt advice locator tool (which lists only providers that are free to the client and hold MAS recognised Quality standards, and is updated by MAS on a quarterly basis thus ensuring only up to date providers are listed) as part of the communications that credit card firms are required to provide to consumers when identified as at risk of persistent overdraft use within the interventions at prescribed intervals in step two of the FCA's two-stage approach under consideration.

---

38 https://masassets.blob.core.windows.net/cms/files/000/000/847/original/Right_Place__Right_Time_%281%29_%28November_2017%29.pdf

39 https://masassets.blob.core.windows.net/cms/files/000/000/780/original/MAS0003_Collaborative_working_Final_W.pdf